

**REPORT OF THE AUDIT OF THE  
MADISON COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2002**



**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE MADISON COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2002**

The Auditor of Public Accounts has completed the Madison County Fiscal Court audit for fiscal year ended June 30, 2002. Since the County Treasurer did not deposit and record all cash receipts of Madison County, we were unable to determine that all revenues resulting from valid transactions were receipted and recorded on the Madison County financial statements. In addition, we were unable to obtain written representations from the County Treasurer as required by generally accepted auditing standards.

#### **Financial Condition:**

Fund balances increased by \$895,444 from the beginning of the year, resulting in a cash surplus of \$6,797,873 as of June 30, 2002.

#### **Debt Obligations:**

Total bonded debt principal as of June 30, 2002, was \$3,315,000. Future collections of \$6,342,138 are needed over the next 19 years to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$2,745,165 as of June 30, 2002. Future principal and interest payments of \$3,857,576 are needed to meet these obligations.

#### **Report Comments:**

- The County Treasurer Failed To Deposit And Record All Cash Receipts
- The County Treasurer's Office Has A Lack Of Segregation Of Duties In Internal Controls In The Area Of Payroll
- The County Should Pay Withholdings In A Timely Manner Thereby Avoiding Assessment Of Penalty And Interest
- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The County Should Comply With Bidding Requirements

#### **Deposits:**

As of June 30, 2002, \$466,642 of the county's deposits were uninsured and uncollateralized by bank securities or bonds.



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**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Kent B. Clark, Madison County Judge/Executive  
Members of the Madison County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Madison County, Kentucky, as of June 30, 2002, and the related statement of cash receipts, cash disbursements, and changes in cash balances and the statement of cash flows for the year then ended. These financial statements are the responsibility of the Madison County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the fourth paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Madison County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The County Treasurer did not deposit and record all cash receipts of Madison County. As a result, we were unable to determine that all revenues resulting from valid transactions were receipted and recorded on the Madison County financial statements. In addition, we were unable to obtain written representation from the County Treasurer as required by generally accepted auditing standards.



To the People of Kentucky  
Honorable Paul E. Patton, Governor  
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In our opinion, except for the possible effect on the financial statements of the matters discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity balances as of June 30, 2002 of Madison County, Kentucky, its receipts and disbursements, and the cash flows of its enterprise fund for the year then ended, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated July 31, 2003 on our consideration of Madison County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Madison County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- The County Treasurer Failed To Deposit And Record All Cash Receipts
- The County Treasurer's Office Has A Lack Of Segregation Of Duties In Internal Controls In The Area Of Payroll
- The County Should Pay Withholdings In A Timely Manner Thereby Avoiding Assessment Of Penalty And Interest
- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The County Should Comply With Bidding Requirements

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
July 31, 2003



MADISON COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2002

**Fiscal Court Members:**

Kent Clark	County Judge/Executive
Larry Combs	Magistrate
Forniss Park	Magistrate
Billy Ray Hughes	Magistrate
William H. Tudor	Magistrate

**Other Elected Officials:**

Marc Robbins	County Attorney
Ron Devere	Jailer
Mary Jane Ginter	County Clerk
Linda Cates	Circuit Court Clerk
Cecil Cochran	Sheriff
Stephen M. Smith	Property Valuation Administrator
James A. Cornelison	Coroner

**Appointed Personnel:**

Brent Baldwin	County Treasurer
Shirl Cross	Occupational Tax Collector/ Finance Officer



STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS

MADISON COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2002

	Governmental Fund Types		
	General	Special Revenue	Debt Service
<u>Assets and Other Resources</u>			
<u>Assets</u>			
Cash and Cash Equivalents	\$ 4,117,731	\$ 690,840	\$ 67
Investments	2,048,000		
Total Assets	<u>\$ 6,165,731</u>	<u>\$ 690,840</u>	<u>\$ 67</u>
<u>Other Resources</u>			
Amounts to Be Provided In Future Years for:			
Kentucky Association Of Counties Leasing Trust Agreements - Principal	\$ 680,365	\$	\$
Administrative Office of the Courts and/or Fiscal Court for Kentucky Area Develop- ment District Financing Trust Lease Agreements - Principal	2,064,800		
General Obligation Refunding and Improvement Bonds Fund - 2001 Series			3,314,933
Total Other Resources	<u>\$ 2,745,165</u>	<u>\$ 0</u>	<u>\$ 3,314,933</u>
Total Assets and Other Resources	<u><u>\$ 8,910,896</u></u>	<u><u>\$ 690,840</u></u>	<u><u>\$ 3,315,000</u></u>

MADISON COUNTY

The accompanying notes are an integral part of the financial statements.

STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS  
June 30, 2002  
(Continued)

<u>Proprietary Fund Type</u>	<u>Totals (Memorandum Only)</u>
<u>Enterprise</u>	
\$ 28,182	\$ 4,836,820
	<u>2,048,000</u>
<u>\$ 28,182</u>	<u>\$ 6,884,820</u>
\$	\$ 680,365
	2,064,800
	<u>3,314,933</u>
<u>\$ 0</u>	<u>\$ 6,060,098</u>
<u>\$ 28,182</u>	<u>\$ 12,944,918</u>

MADISON COUNTY

The accompanying notes are an integral part of the financial statements.

STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS  
June 30, 2002  
(Continued)

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>
<u>Liabilities and Equity</u>			
<u>Liabilities</u>			
Capital Lease Agreements - Principal			
Kentucky Association of Counties Leasing Trust (Note 5-A,B)	\$ 680,365	\$	\$
Kentucky Area Development Financing Trust (Note 5-C,D,E)	2,064,800		
Payroll Revolving Account	51,977		
Payroll Withholding Tax Account	34,970		
General Obligation Refunding and Improvement Bonds Fund - 2001 Series Bonds Not Matured (Note 4)			3,315,000
Total Liabilities	<u>\$ 2,832,112</u>	<u>\$ 0</u>	<u>\$ 3,315,000</u>
<u>Equity</u>			
Fund Balances:			
Reserved	\$	\$ 690,840	\$
Unreserved	6,078,784		
Total Equity	<u>\$ 6,078,784</u>	<u>\$ 690,840</u>	<u>\$ 0</u>
Total Liabilities and Equity	<u><u>\$ 8,910,896</u></u>	<u><u>\$ 690,840</u></u>	<u><u>\$ 3,315,000</u></u>

MADISON COUNTY  
STATEMENT OF ASSETS, LIABILITIES,

The accompanying notes are an integral part of the financial statements.

AND EQUITY ARISING FROM CASH TRANSACTIONS  
June 30, 2002  
(Continued)

<u>Proprietary Fund Type</u>	<u>Totals (Memorandum Only)</u>
<u>Enterprise</u>	
\$	\$ 680,365
	2,064,800
	51,977
	34,970
	<u>3,315,000</u>
<u>\$ 0</u>	<u>\$ 6,147,112</u>
\$ 28,182	\$ 719,022
	<u>6,078,784</u>
<u>\$ 28,182</u>	<u>\$ 6,797,806</u>
<u>\$ 28,182</u>	<u>\$ 12,944,918</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

MADISON COUNTY  
STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2002

	General Fund Type			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 13,939,266	\$ 5,949,845	\$ 1,572,658	\$ 1,231,876
Receipts - Jail Canteen	241,308			
Transfers In	8,483,317	4,441,882	900,020	120,000
Bond Proceeds	3,320,000			
Kentucky Advance Revenue Program				
Principal	6,259,100	6,259,100		
Interest	126,192	126,192		
Total Cash Receipts	<u>\$ 32,369,183</u>	<u>\$ 16,777,019</u>	<u>\$ 2,472,678</u>	<u>\$ 1,351,876</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 13,363,031	\$ 6,547,427	\$ 2,382,164	\$ 1,363,927
Expenditures - Jail Canteen	226,510			
Schedule of Public Properties Courthouse Corporation Fund Expenditures	4,685			
Schedule of General Obligation Refunding and Improvement Bond Fund Expenditures	67,275			
Transfers Out	8,483,317	1,163,236		
Bonds:				
Principal Paid	2,515,000			
Early Redemption Premium	25,100			
Discount	50,794			
Interest Paid	167,271			
Kentucky Association of Counties Leasing Trust - Principal Payments	98,996	98,996		
Kentucky Area Development District Financing Trust - Principal Payment	143,200	75,000	68,200	
Kentucky Advance Revenue Program				
Principal Paid	6,259,100	6,259,100		
Interest Paid	83,394	83,394		
Total Cash Disbursements	<u>\$ 31,487,673</u>	<u>\$ 14,227,153</u>	<u>\$ 2,450,364</u>	<u>\$ 1,363,927</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 881,510	\$ 2,549,866	\$ 22,314	\$ (12,051)
Cash Balance - July 1, 2001*	<u>5,916,363</u>	<u>2,858,162</u>	<u>85,753</u>	<u>46,437</u>
Cash Balance - June 30, 2002*	<u>\$ 6,797,873</u>	<u>\$ 5,408,028</u>	<u>\$ 108,067</u>	<u>\$ 34,386</u>
* Cash Balance Includes Investments				

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY  
 STATEMENT OF CASH RECEIPTS,  
 CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES  
 For The Fiscal Year Ended June 30, 2002  
 (Continued)

General Fund Type			
Local Government Economic Assistance Fund	Occupational Employment Tax Fund	Goggins Lane Bridge Fund	Capital Improvements Fund
\$ 267,232	\$ 1,523,797	\$ 567	\$ 917,077
<u>\$ 267,232</u>	<u>\$ 1,523,797</u>	<u>\$ 567</u>	<u>\$ 917,077</u>
\$ 295,146	\$	\$	\$
	1,368,000		2,068,953
<u>\$ 295,146</u>	<u>\$ 1,368,000</u>	<u>\$ 0</u>	<u>\$ 2,068,953</u>
\$ (27,914)	\$ 155,797	\$ 567	\$ (1,151,876)
342,950	25,316	31,587	1,151,876
<u>\$ 315,036</u>	<u>\$ 181,113</u>	<u>\$ 32,154</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY  
 STATEMENT OF CASH RECEIPTS,  
 CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES  
 For The Fiscal Year Ended June 30, 2002  
 (Continued)

	<u>Special Revenue Fund Type</u>		
	<u>CSEPP</u>	<u>CDBG</u>	<u>E-911</u>
<u>Cash Receipts</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>
Schedule of Operating Revenue	\$ 2,089,818	\$ 7,633	\$ 351,892
Receipts - Jail Canteen			
Transfers In			
Bond Proceeds			
Kentucky Advance Revenue Program			
Principal			
Interest			
Total Cash Receipts	<u>\$ 2,089,818</u>	<u>\$ 7,633</u>	<u>\$ 351,892</u>
<u>Cash Disbursements</u>			
Comparative Schedule of Final Budget			
and Budgeted Expenditures	\$ 2,441,111	\$ 7,052	\$ 326,204
Expenditures - Jail Canteen			
Schedule of Public Properties Courthouse			
Corporation Fund Expenditures			
Schedule of General Obligation			
Refunding and Improvement Bond			
Fund Expenditures			
Transfers Out		2,705	
Bonds:			
Principal Paid			
Early Redemption Premium			
Discount			
Interest Paid			
Kentucky Association of Counties			
Leasing Trust - Principal Payments			
Kentucky Area Development District			
Financing Trust - Principal Payment			
Kentucky Advance Revenue Program			
Principal Paid			
Interest Paid			
Total Cash Disbursements	<u>\$ 2,441,111</u>	<u>\$ 9,757</u>	<u>\$ 326,204</u>
Excess (Deficiency) of Cash Receipts			
Over (Under) Cash Disbursements	\$ (351,293)	\$ (2,124)	\$ 25,688
Cash Balance - July 1, 2001*	<u>796,640</u>	<u>2,706</u>	<u>219,223</u>
Cash Balance - June 30, 2002*	<u>\$ 445,347</u>	<u>\$ 582</u>	<u>\$ 244,911</u>
* Cash Balance Includes Investments			

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY  
STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES  
For The Fiscal Year Ended June 30, 2002  
(Continued)

Debt Service Fund Type		Enterprise Fund Type
Public Properties Courthouse Corporation Fund	General Obligation Refunding and Improvement Bonds Fund	Jail Canteen
\$ 12,939	\$ 13,932	\$
2,587,229	434,186	241,308
	3,320,000	
<u>\$ 2,600,168</u>	<u>\$ 3,768,118</u>	<u>\$ 241,308</u>
\$	\$	\$
4,685		226,510
	67,275	
343,099	3,537,324	
2,510,000	5,000	
25,100		
	50,794	
59,613	107,658	
<u>\$ 2,942,497</u>	<u>\$ 3,768,051</u>	<u>\$ 226,510</u>
\$ (342,329)	\$ 67	\$ 14,798
342,329		13,384
<u>\$ 0</u>	<u>\$ 67</u>	<u>\$ 28,182</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH  
Flows-Proprietary Fund Type





MADISON COUNTY  
STATEMENT OF CASH  
FLows-PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2002

	<u>Enterprise Funds</u>
	<u>Jail Canteen</u>
Cash Flows From Operating Activities:	
Cash Received From Inmates	\$ 240,918
Payments to Suppliers	(80,228)
Other Payments	<u>(146,282)</u>
Net Cash Provided By Operating Activities	<u>\$ 14,408</u>
Cash Flows from Investing Activities:	
Interest Received on Bank Accounts	<u>\$ 390</u>
Net Cash Provided by Investing Activities	<u>\$ 390</u>
Net Increase in Cash	\$ 14,798
Cash and Cash Equivalents - Beginning	<u>13,384</u>
Cash and Cash Equivalents - Ending	<u><u>\$ 28,962</u></u>

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY  
NOTES TO FINANCIAL STATEMENTS

June 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Madison County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Public Properties Courthouse Corporation Fund, and General Obligation Refunding and Improvement Bonds Fund as part of the reporting entity.

The Public Properties Courthouse Corporation (the Corporation) is a legally separate entity established to provide long-term debt service for the Fiscal Court. The Corporation's governing body consists entirely of Fiscal Court members. Therefore, management must include the Corporation as a component unit, and the Corporation's financial activity is blended with that of the Fiscal Court.

The General Obligation Refunding and Improvement Bonds Fund is established to provide long-term financing for approved projects. A third party trustee maintains the fund on the Fiscal Court's behalf; therefore, management must include the fund as a part of the reporting entity and their financial activity is blended with that of the Fiscal Court.

Additional - Madison County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Madison County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

MADISON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Madison County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Madison County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund (LGEA), Occupational Employment Tax Fund, Goggins Lane Bridge Fund, and Capital Improvements Fund.

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Madison County Special Revenue Fund Type includes the following county funds: The CSEPP Fund, the CDBG Fund, and the E-911 Fund.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Public Properties Courthouse Corporation and the General Obligation Refunding and Improvement Bonds Fund. Long-term debt service for the Public Properties Courthouse Corporation and the General Obligation Refunding and Improvement Bonds Fund is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

4) Enterprise Fund Type

The Enterprise Fund Type is used to report an activity for which a fee is charged to external users for goods or services. The Madison County Enterprise Fund Type includes the jail canteen account, which is maintained by the county jailer.

MADISON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

4) Enterprise Fund Type (Continued)

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. All profit expenditures were for the benefit and/or recreation of the inmates.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Madison County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Properties Courthouse Corporation Fund or the General Obligation Refunding and Improvement Bonds Fund (Debt Service Fund) because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the General Fund Type to comply with these requirements. The Department for Local Government does not require these funds to be budgeted.

MADISON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Madison County Fiscal Court: Madison County Utility District, Madison County Sanitation District #2, North Madison County Sanitation District, Southern Madison Water District, and Kirksville Water District.

G. Jointly Governed Organizations

The Madison County Airport Board, Inc. whose purpose is to oversee the day-to-day operations of the airport, is a joint board of the County and the cities of Berea and Richmond. The County Judge/Executive with the approval of the fiscal court appoints two members, and the Mayor of Berea with the approval of the City Counsel appoints two members. The County has no equity interest. The County contributed \$10,000 to the Madison County Airport Board, Inc. for the year ended June 30, 2002.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

MADISON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits and Investments

A. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The county entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of June 30, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$466,642 of public funds uninsured and unsecured.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of June 30, 2002.

	<u>Bank Balance</u>
Insured or collateralized with securities held by the county's agent in the county's name	\$ 4,539,694
Uncollateralized and uninsured	<u>466,642</u>
Total	<u><u>\$ 5,006,336</u></u>

Note 3. Deposits and Investments (Continued)

MADISON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

B. Investments

The county's investments are categorized below to give an indication of the level of risk assumed by the county at year-end. Category 1 includes investments that are insured or registered or the securities are held by the county or by the county's agent in the county's name. Category 2 includes uninsured and unregistered investments where the securities are held by the financial institution in the county's name. Category 3 includes uninsured and unregistered investments where the securities were held by the financial institution, but not in the county's name.

<u>Types of Investments</u>	<u>Category 1</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Federal Home Loan Banks Consolidated Bond	\$ 1,495,000	\$ 1,495,000	\$ 1,521,814
Federal Home Loan Mortgage Corporation Medium Term Note	<u>553,000</u>	<u>553,000</u>	<u>547,470</u>
Totals	<u>\$ 2,048,000</u>	<u>\$ 2,048,000</u>	<u>\$ 2,069,284</u>

Note 4. Long-Term Debt

Bonds outstanding of the General Fund are \$3,315,000 of General Obligation Funding and Improvement Bonds issued on August 1, 2001, with interest rates of 4.15% through 4.875% payable semiannually. The total issue of the bonds was \$3,320,000 with principal paid annually April 1. The bonds fully amortize by April 1, 2021.

Note 4. Long-Term Debt (Continued)

MADISON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Future principal and interest requirements of these bonds are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	161,280	5,000
2004	161,073	5,000
2005	160,865	5,000
2006	160,657	5,000
2007	160,450	5,000
2008-2012	799,137	25,000
2013-2017	793,406	25,000
2018-2021	<u>630,337</u>	<u>3,240,000</u>
Totals	<u>3,027,205</u>	<u>3,315,000</u>

Note 5. Capital Lease Agreements

- A. On July 2, 1996, Madison County Fiscal Court entered into a 23-year leasing agreement with KACo Leasing Trust for the Madison County Extension Building. Principal payments are due monthly. The county has made \$200,000 in additional principal payments thereby reducing the term of the lease by six years. Future requirements under this lease are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 11,265	\$ 20,849
2004	10,436	21,807
2005	9,568	22,808
2006	8,661	23,856
2007	7,712	24,952
2008-2012	22,725	143,044
2013-2014	<u>1,085</u>	<u>41,236</u>
Totals	<u>\$ 71,452</u>	<u>\$ 298,552</u>

Note 5. Capital Lease Agreements (Continued)



MADISON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

- B. On August 6, 1997, the Madison County Fiscal Court entered into a 15-year leasing agreement with KACo Leasing Trust for the construction of a fire station. Principal payments are due monthly. Future requirements under this lease are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2003	\$ 13,862	\$ 30,398
2004	12,693	31,795
2005	11,471	33,255
2006	10,192	34,783
2007	8,854	36,381
2008-2012	21,954	208,566
2013	29	6,635
Totals	<u>\$ 79,055</u>	<u>\$ 381,813</u>
Total KACo Leasing Trust Agreement		<u>\$ 680,365</u>

- C. On February 12, 1998, the Madison County Fiscal Court entered into a 20-year leasing agreement with the KADD Financing Trust for the replacement for the HVAC system in the courthouse and related improvements and replacements. Principal payments are due annually by November 20. The schedule below sets forth Madison County annual debt service of the lease after deducting AOC's rental payment:

Fiscal Year Ending June 30	Principal Payment	Scheduled Interest and Bank Charges	Total Payment	Less AOC Rental Amount*	Net Amount Due From County
2003	\$ 25,000	\$ 33,720	\$ 58,720	\$ (23,696)	\$ 35,024
2004	30,000	32,400	62,400	(23,696)	38,704
2005	30,000	30,960	60,960	(23,696)	37,264
2006	30,000	29,482	59,482	(23,696)	35,786
2007	30,000	27,968	57,968	(23,696)	34,272
2008- 2012	190,000	112,370	302,370	(118,480)	183,890
2013- 2017	245,000	54,475	299,475	(118,480)	180,995
2018	60,000	2,165	62,165	(11,848)	50,317
Totals	<u>\$ 640,000</u>	<u>\$ 323,540</u>	<u>\$ 963,540</u>	<u>\$ (367,288)</u>	<u>\$ 596,252</u>

Note 5. Capital Lease Agreements (Continued)

MADISON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

\*In accordance with a sublease agreement between Administrative Office of the Courts and the Madison County Fiscal Court dated March 1, 1998, AOC committed itself to participate in providing part of the costs of replacing the HVAC system in the courthouse and related improvements through use allowance payments.

- D. On July 20, 2000, the Madison County Fiscal Court entered into a 17-year leasing agreement with KADD Financing Trust for the construction costs of the family court facilities project. Principal payments are due annually by May 20. Future requirements under this lease are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2003	\$ 64,116	\$ 50,000
2004	61,614	55,000
2005	58,864	55,000
2006	56,111	60,000
2007	52,976	60,000
2008-2012	212,953	360,000
2013-2017	98,111	480,000
Totals	<u>\$ 604,745</u>	<u>\$ 1,120,000</u>

- E. On April 21, 1999, the Madison County Fiscal Court entered into a 7-year leasing arrangement with KADD Financing Trust for the purchase of road equipment. Principal payments are due semi-annually by November 20 and May 20. Future requirements under this lease are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2003	\$ 13,783	\$ 71,500
2004	10,310	74,900
2005	6,672	78,600
2006	2,854	79,800
Totals	<u>\$ 33,619</u>	<u>\$ 304,800</u>

Totals General Fund KADD Lease Agreements (Principal)	<u>\$ 2,064,800</u>
--	---------------------

MADISON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 6. Extension Office Sublease Agreement

On July 2, 1996, the Madison County Fiscal Court entered into a 23-year leasing agreement with KACo Leasing Trust for the Madison County Extension Building. On that same date, the Madison County Fiscal Court and the Madison County Extension District entered into a sublease which stated the Madison County Extension District will reimburse the county all rental payments as set out in the county's KACo Leasing Trust agreement. As of June 30, 2002, the Madison County Extension District was in substantial compliance with the agreement.

Note 7. Interlocal Cooperation Agreement

The Madison County Fiscal Court entered into an Interlocal Cooperation Agreement with the Central Kentucky Counties in order to jointly establish a program to provide assistance in the financing of single-family housing known as Residential Mortgage Program. The Madison County Fiscal Court authorized the issuance of up to \$10,000,000 of Residential Mortgage Revenue Bonds to finance the program.

Note 8. Subsequent Events

On June 27, 2003, the County Treasurer submitted his resignation to the County Judge/Executive. Following the County Treasurer's resignation, the acting County Treasurer and the Finance Officer discovered numerous errors in the Employee Withholding Account, particularly with payments to the IRS. However, based on the available records maintained by the former County Treasurer, correct amounts could not be determined. The acting County Treasurer and the Finance Officer are currently working with the IRS to resolve any discrepancies. According to the IRS, this process may take several months. As of July 31, 2003, transfers totaling \$150,000 have been made from the General Fund to the Employee Withholding Account in order to pay current liabilities. Auditors also reviewed deposit tickets of the Employee Withholding Account for the period subsequent to June 30, 2002 and noted various county receipts (KACO insurance claim for \$6,010, Road Aid for \$6,864, Road Aid for \$23,408, Road Reimbursement for \$1,113), which were deposited directly to that account and have not been recorded on the Cash Receipts Ledger. The former County Treasurer made an additional transfer of \$25,000 from the Payroll Account to the Employee Withholding Account on March 13, 2003. Until the IRS provides information relating to any federal liabilities and/or overpayments, as well as penalties and interest that have been paid, the accurate amount of liabilities owed by the county cannot be determined.

Note 9. Insurance

For the fiscal year ended June 30, 2002, Madison County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

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COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE



MADISON COUNTY  
COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 10,168,635	\$ 5,949,845	\$ (4,218,790)
Road and Bridge Fund	1,502,140	1,572,658	70,518
Jail Fund	1,181,764	1,231,876	50,112
Local Government Economic Assistance Fund	188,000	267,232	79,232
<u>Special Revenue Fund Type</u>			
CSEPP Fund	3,586,499	2,089,818	(1,496,681)
CDBG Fund	7,633	7,633	
E-911 Fund	285,000	351,892	66,892
Totals	<u>\$ 16,919,671</u>	<u>\$ 11,470,954</u>	<u>\$ (5,448,717)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 16,919,671
Add: Budgeted Prior Year Surplus			2,646,640
Add: Other Financing Sources			1,002,224
Less: Other Financing Uses			<u>(385,412)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 20,183,123</u>

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SCHEDULE OF OPERATING REVENUE



MADISON COUNTY  
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

<u>Revenue Categories</u>	<u>GOVERNMENTAL FUND TYPES</u>			
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type	Debt Service Fund Type
Taxes	\$ 4,377,160	\$ 4,186,422	\$ 190,738	\$
Excess Fees	259,232	259,232		
Licenses and Permits	329,169	329,169		
Intergovernmental Revenues	7,065,084	4,888,418	2,176,666	
Charges for Services	202,202	162,922	39,280	
Miscellaneous Revenues	545,815	509,412	36,403	
Interest Earned	<u>1,160,604</u>	<u>1,127,477</u>	<u>6,256</u>	<u>26,871</u>
Total Operating Revenue	<u>\$ 13,939,266</u>	<u>\$ 11,463,052</u>	<u>\$ 2,449,343</u>	<u>\$ 26,871</u>

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COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES



MADISON COUNTY  
COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2002

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 1,215,347	\$ 1,152,737	\$ 62,610
Protection to Persons and Property	2,402,275	2,351,148	51,127
General Health and Sanitation	366,921	331,952	34,969
Social Services	137,532	123,231	14,301
Recreation and Culture	177,405	162,726	14,679
Roads	2,839,459	2,592,691	246,768
Debt Service	191,650	99,606	92,044
Capital Projects	6,840,524	2,677,090	4,163,434
Administration	1,136,238	1,097,483	38,755
 Total Operating Budget - General Fund Type	 \$ 15,307,351	 \$ 10,588,664	 \$ 4,718,687
Other Financing Uses:			
Transfers to Public Property			
Courthouse Corporation Fund	52,129	52,129	
Transfers to General Obligation			
Refunding and Improvement			
Bonds Fund	91,087	91,087	
KADD Leases - Principal			
Family Court Facilities	50,000	50,000	
HVAC Lease	25,000	25,000	
Road Equipment Lease	68,200	68,200	
KACO Leasing Trust Equipment Lease-			
Principal -			
Extension Service	69,933	69,933	
Fire Station Lease	29,063	29,063	
 TOTAL BUDGET - GENERAL FUND TYPE	 \$ 15,692,763	 \$ 10,974,076	 \$ 4,718,687

MADISON COUNTY  
 COMPARATIVE SCHEDULE OF  
 FINAL BUDGET AND BUDGETED EXPENDITURES  
 For The Fiscal Year Ended June 30, 2002  
 (Continued)

<u>Expenditure Categories</u>	<u>SPECIAL REVENUE FUND TYPE</u>		
	<u>Final Budget</u>	<u>Budgeted Expenditures</u>	<u>Under (Over) Budget</u>
Protection to Persons and Property	\$ 4,611,168	\$ 2,656,269	\$ 1,954,899
Capital Projects	7,633	7,052	581
Administration	<u>256,971</u>	<u>111,046</u>	<u>145,925</u>
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	<u>\$ 4,875,772</u>	<u>\$ 2,774,367</u>	<u>\$ 2,101,405</u>



SCHEDULE OF PUBLIC PROPERTIES  
COURTHOUSE CORPORATION FUND EXPENDITURES



MADISON COUNTY  
SCHEDULE OF PUBLIC PROPERTIES  
COURTHOUSE CORPORATION FUND EXPENDITURES

For The Fiscal Year Ended June 30, 2002

Expenditure Items

Trustee Fees

\$ 4,685

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**SCHEDULE OF GENERAL OBLIGATION REFUNDING  
AND IMPROVEMENT BONDS FUND EXPENDITURES**



MADISON COUNTY  
SCHEDULE OF GENERAL OBLIGATION REFUNDING  
AND IMPROVEMENT BONDS FUND EXPENDITURES

For The Fiscal Year Ended June 30, 2002

<u>Expenditure Items</u>	
Costs of Issuance	\$ 51,700
Underwriter's Discount	<u>15,575</u>
Total	<u>\$ 67,275</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Kent B. Clark, Madison County Judge/Executive

Members of the Madison County Fiscal Court

**Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Madison County, Kentucky, as of and for the year ended June 30, 2002, and have issued our report thereon dated July 31, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Madison County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs.

- Reference Number 2002-1: The County Treasurer Failed To Deposit And Record All Cash Receipts
- Reference Number 2002-3: The County Should Pay Withholdings In A Timely Manner Thereby Avoiding Assessment Of Penalty And Interest
- Reference Number 2002-4: The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- Reference Number 2002-5: The County Should Comply With Bidding Requirements



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Madison County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Madison County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs.

- Reference 2002-2: The County Treasurer's Office Has A Lack Of Segregation Of Duties In Internal Controls In The Area Of Payroll

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
July 31, 2003

REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133





**EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Kent B. Clark, Madison County Judge/Executive

Members of the Madison County Fiscal Court

**Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133**

**Compliance**

We have audited the compliance of Madison County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2002. Madison County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Madison County's management. Our responsibility is to express an opinion on Madison County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Madison County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Madison County's compliance with those requirements.

In our opinion, Madison County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002. However, the results of our auditing procedures disclosed one instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs.

- 2002-5: The County Should Comply With Bidding Requirements



Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133  
(Continued)

Internal Control Over Compliance

The management of Madison County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Madison County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
July 31, 2003



## FINDINGS AND QUESTIONED COSTS



MADISON COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Fiscal Year Ended June 30, 2002

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses a qualified opinion on the financial statements of Madison County.
2. One reportable condition disclosed during the audit of the financial statements is reported in the Independent Auditor's Report. The reportable condition is reported as a material weakness.
3. Four instances of noncompliance material to the financial statements of Madison County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards program are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Madison County expresses an unqualified opinion.
6. Audit findings relative to the major federal awards programs for Madison County are reported in Part C of this schedule.
7. The program tested as a major program was Chemical Stockpile Emergency Preparedness Program (CSEPP) CFDA #83.549
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Madison County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

Reference 2002-2

The County Treasurer's Office Has A Lack Of Segregation Of Duties In Internal Controls In The Area Of Payroll

There is a lack of segregation of duties in internal controls in the area of payroll. Normally, there are compensating controls of dual signature on payroll checks in effect to offset the lack of adequate segregation of duties; however, there were instances when both the dual signatures on checks were not in effect and instances when dual signatures did not mitigate discrepancies in net pay checks.

During our test of payroll we noted that one check to the payroll withholding tax account had only one signature and two checks to the jail fund had no signature. If internal controls are in place, all checks should have dual signatures. We recommend that all checks written by the county have two signatures.

In addition, we noted that health insurance premiums totaling \$844 were not withheld from the County Treasurer's paycheck for 5 pay periods during FY 2002. Health insurance premiums were paid monthly to Bluegrass Family Health and included family coverage health insurance premiums for the County Treasurer. This matter has been referred to the Attorney General's Office and is included in their current investigation of the County Treasurer.

MADISON COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Fiscal Year Ended June 30, 2002  
(Continued)

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

REPORTABLE CONDITIONS (Continued)

Reference 2002-2 (Continued)

The County Treasurer's Office Has A Lack Of Segregation Of Duties In Internal Controls In The Area Of Payroll (Continued)

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During our review of events subsequent to June 30, 2002, the County Treasurer failed to withhold \$295 of health insurance premiums from his August 2002 paychecks. However, on May 22, 2003 and June 5, 2003, the County Treasurer reimbursed the county through payroll deductions a total of \$295. In addition, on June 19, 2003, the County Treasurer also reimbursed the county through payroll deductions \$338 for health insurance premiums that were not withheld during FY 2002.

This matter has been referred to the Attorney General's Office for further action as warranted.

*County Judge/Executive Kent Clark's Response:*

*Above issues have been turned over to the Attorney General's Office for further investigation.*

NONCOMPLIANCES

Reference Number 2002-1

The County Treasurer Failed To Deposit And Record All Cash Receipts

During fiscal year ended June 30, 2002, the County Treasurer failed to deposit and record cash receipts of \$9,956 as required by KRS 68.020. In accordance with this statute, the county treasurer shall receive and receipt all money due the county as well as keep an accurate detailed account of all money received by him for the county. His failure to deposit and record all cash receipts resulted in the revenue accounts for interest and planning and development of the General Fund being understated by \$4,288 and \$4,770, respectively, and interest of the E-911 Fund being understated by \$898.

During our testing of interest earned on certificates of deposits (CDs), we discovered three General Fund interest checks totaling \$4,288 that had been cashed. These three checks had not been recorded on the cash receipts ledger nor were the proceeds deposited in an official Madison County bank account. Additionally, we discovered one E-911 Fund interest check for \$898 that had been deposited into a bank account other than an official Madison County bank account. This check was not recorded in the cash receipts ledger.

MADISON COUNTY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For The Fiscal Year Ended June 30, 2002  
 (Continued)

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

NONCOMPLIANCES (Continued)

Reference Number 2002-1 (Continued)

The County Treasurer Failed To Deposit And Record All Cash Receipts (Continued)

During our testing of Planning and Development receipts, we discovered instances where the deposits originally prepared by Planning and Development were either altered by the County Treasurer or a new deposit was prepared by the County Treasurer, reducing the amount of cash receipts collected by the Office of Planning and Development. Cash receipts collected by the Office of Planning and Development totaling \$4,770 were not deposited or recorded in the cash receipts ledger during fiscal year ended June 30, 2002.

During our review of events subsequent to June 30, 2002, the County Treasurer failed to deposit and record cash receipts of \$7,012. Our review of Planning and Development receipts revealed instances where the deposits originally prepared by Planning and Development were either altered by the County Treasurer or a new deposit was prepared by the County Treasurer, reducing the amount of cash receipts collected by the Office of Planning and Development. Cash receipts collected by the Office of Planning and Development totaling \$1,144 were not deposited or recorded in the cash receipts ledger. Furthermore, county, bank, and Planning and Development records indicate the County Treasurer failed to record the receipt of various General Fund revenue checks totaling \$5,868 received by the county. The County Treasurer then replaced cash collected by Planning and Development with the checks. Consequently, since the checks agreed with the amount of cash removed, Planning and Development receipts were recorded correctly. However, the checks replacing the cash were never recorded in the appropriate revenue accounts of the county.

These matters have been referred to the Attorney General's Office for further action as warranted.

*County Judge/Executive Kent Clark's Response:*

*Above issues have been turned over to the Attorney General's Office for investigation.*

Reference Number 2002-3

The County Should Pay Withholdings In A Timely Manner Thereby Avoiding Assessment Of Penalty And Interest

During our test of federal withholdings, the current period payment revealed no discrepancies. However, when preparing a proof of cash for the Payroll Withholding Tax Account, we discovered several checks written to the Internal Revenue Service (IRS) for prior payroll periods. Upon further investigation, we discovered the county was not in compliance with federal withholding payments. Various federal withholding payments had not been paid on time and penalties and interest were accrued by the IRS. We determined for the FYE 6-30-02 that approximately \$37,371 in federal withholdings had not been remitted to the IRS. We were unable to determine an exact amount due to various mistakes noted in preparing 941 federal withholding forms.

MADISON COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Fiscal Year Ended June 30, 2002  
(Continued)

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

NONCOMPLIANCES (Continued)

Reference Number 2002-3 (Continued)

The County Should Pay Withholdings In A Timely Manner Thereby Avoiding Assessment Of Penalty And Interest (Continued)

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The County Treasurer failed to adjust various payroll periods for voided checks and advanced earned income credit payments resulting in overpayments to the IRS. In addition, we discovered mathematical errors in computing the 941, again resulting in overpayments to the IRS. The Finance Officer and Acting County Treasurer are currently in contact with the IRS and are working to resolve this issue.

*County Judge/Executive Kent Clark's Response:*

*County employees are currently working closely with IRS officials in order to resolve these issues.*

Reference Number 2002-4

The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

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On June 30, 2002, \$466,642 of the county's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the county require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

*County Judge/Executive Kent Clark's Response:*

*The Finance Officer and Acting Treasurer are developing a policy with local banks that will not allow this to happen again.*

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

MADISON COUNTY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For The Fiscal Year Ended June 30, 2002  
 (Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM  
 AUDIT

Reference Number 2002-5

The County Should Comply With Bidding Requirements

FEMA Code of Federal Regulations (44 CFR 13) states in subparagraph 13.36(b) that grantees and subgrantees should use their own procurement procedures in making purchases. Madison County should then follow state laws and its own administrative code.

KRS 424.260 provides that a county must make a newspaper advertisement for bids before it may enter into a contract or other agreement for materials, supplies, equipment or non-professional services involving an expenditure of more than \$20,000. The county purchased security cameras from the CSEPP Fund during fiscal year 2002. The cost of the cameras along with the cost of installation exceeded \$20,000. The county failed to comply with KRS 424.260 by not advertising for bids for the purchase of the cameras and installation.

	<u>Questioned Costs</u>
Security Cameras	\$19,666
Installation	<u>\$19,846</u>
Total	<u>\$39,512</u>

*County Judge/Executive Kent Clark's Response:*

*This transaction was mistakenly done without my knowledge. I can assure you it won't happen again.*

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS



MADISON COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2002

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
U.S. Department of Housing and <u>Urban Development</u>		
Passed-Through State Department for Local Government:		
Community Development Block Grants- Microenterprise Project - WINGS (CFDA #14.228)	M-00036142	\$ 7,633
<u>U. S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs:		
Disaster and Emergency Assistance Grants- Coordinator Salary (CFDA #83.503)	Not Available	6,974
Chemical Stockpile Emergency Preparedness Program (CFDA #83.549)	M-02183697	1,821,784
United States Fire Administration Assistance to Firefighters Grant (CFDA #83.554)	Not Applicable	27,297
Federal Highway Administration <u>U.S. Department of Transportation</u>		
Passed-Through State Department for Local Government		
Recreational Trails Program Walking Trails Grant (CFDA #20.219)	RTP-154-01	<u>50,000</u>
Total Cash Expenditures of Federal Awards		<u>\$ 1,913,688</u>

MADISON COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Fiscal Year Ended June 30, 2002  
(Continued)

Noncash Programs:

U.S. Department of Agriculture

Passed-Through State Department  
of Agriculture:

Jail Commodity Program  
(CFDA #10.550)

Not Available      \$      660

Total Noncash Expenditures of Federal Awards      \$      660

MADISON COUNTY  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2002

Note 1 - Basis of Presentation

This schedule is presented on a modified cash basis of accounting except for the noncash programs, which represents commodities received and distributed by the county. The dollar value of these commodities has been provided by the Department of Agriculture.

Note 2 - Pre-payment of CSEPP Federal Expenditures

On November 7, 2001, the Madison County Fiscal Court made a \$716,070 federal payment to an organization for services to be performed through September 30, 2003; however, actual expenditures through June 30, 2002 only totaled \$103,926. Of the remaining \$612,144 pre-payment, \$31,386 was expended through October 2002. At this time, the organization refunded Madison County the remaining \$580,758. This amount was placed in a bank account under the County's name to be used for future federal expenditures to the same organization. Only the actual amount of federal expenditures through June 30, 2002 is included on the Schedule of Expenditures of Federal Awards.

CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

MADISON COUNTY FISCAL COURT

For The Fiscal Year Ended  
June 30, 2002

**CERTIFICATION OF COMPLIANCE**  
**LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**  
**MADISON COUNTY FISCAL COURT**

**For The Fiscal Year Ended June 30, 2002**

The Madison County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
\_\_\_\_\_  
Kent Clark  
County Judge/Executive

  
\_\_\_\_\_  
Brent Baldwin  
County Treasurer